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Weekly Commentary, Selected Financial Data, and Business Indicators

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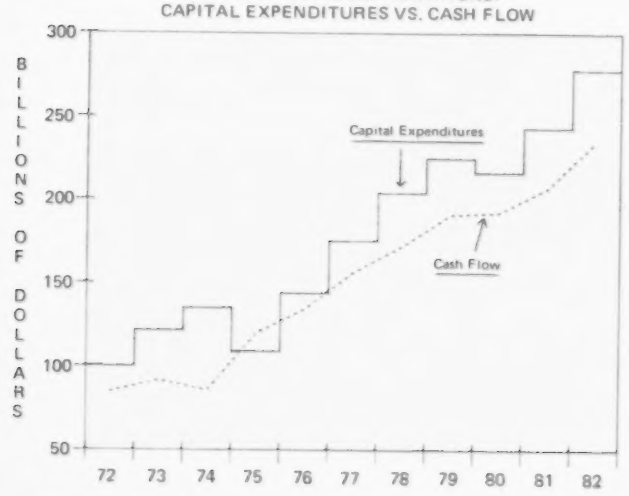
Increased Business Spending . . .

With the threat of another sharp rise in Federal government borrowing requirements later this year, and in early 1982 overhanging the financial markets, what are the prospects that reduced credit demands in other sectors will be able to forestall a renewed interest rate spiral? One area in which credit requirements ***cannot*** be expected to abate in 1982 is U.S. nonfinancial corporations. Their demands for funds may remain strong next year—sluggish economy notwithstanding—because of the severe deterioration in corporate liquidity positions that has occurred in recent years.

One of the major factors accounting for the erosion of corporate liquidity has been the sluggish growth of corporate earnings. Hard-hit by lackluster "real" final sales, escalating labor, energy and financing costs as well as slumping productivity performance, many U.S. corporations have experienced only modest profits growth at best, and sharp losses at worst. This trend was once again highlighted in the second quarter of this year when profits from

CHART I

NONFINANCIAL CORPORATIONS:
CAPITAL EXPENDITURES VS. CASH FLOW



current production plunged almost ten per cent quarter-over-quarter—the third steepest slide in 22 years. Ominously, the profits weakness was not only confined to the long-suffering housing, auto and airline industries but extended into such previously prosperous areas as high technology, as demand for semiconductors and business equipment waned. Thus, with profitability diminished, the gap between business cash flow and the level of capital spending has widened in recent months. (See Chart I.)

SUMMARY OF BUSINESS FINANCING REQUIREMENTS
($ Billions)

	1977	1978	1979	1980	1981(e)	1982(p)
Capital Expenditures	174.9	203.6	224.7	216.1	243.4	278.2
Less: Internal Cash Flow	156.2	171.9	190.6	192.2	206.7	235.9
Equals: Operating Requirements	18.7	31.7	34.0	23.9	36.6	42.4
Plus: Change in Financial Assets	22.2	32.1	45.1	37.8	34.3	35.0
Equals: External Financing Requirements	40.9	63.8	79.1	61.7	70.9	77.4

e = estimated p = projected

To help bridge the financing gap, corporations expanded their level of external borrowings. In particular, the demand for funds has been concentrated in the short-term area due to the lofty yields and unstable conditions prevailing in the bond markets. Commercial and industrial loans outstanding at large weekly reporting banks have increased by $60 billion since mid-1978, when short-term credit demands began to balloon, while outstanding nonfinancial company commercial paper, an alternative to bank loans for some companies, has soared by more than $30 billion during the same period. Thus, with short-term credit outstanding rising by $90 billion in three years and short-term interest rates spiking to record high levels, it is hardly surprising that many key indicators of corporate financial health have deteriorated—many to historic depths.

. . . Plus Strained Business Liquidity . . .

One measure of liquidity, the ratio of short-term liabilities to total liabilities, jumped from less than 34 per cent in 1976 to almost 40 per cent currently,

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indicative of the difficulties facing corporations in securing long-term finance. What is more, with the cost of both short- and long-term finance ratcheting ever higher, the proportion of cash flow required to service existing debt has also risen correspondingly Specifically, the percentage of gross internal funds required to service outstanding debt has risen from 26 per cent in early 1977 to almost 45 per cent now—perhaps one reason why "real" investment spending in 1981 stood not far from the level first reached in 1979. (See Chart II, page 3.)

Nor is the weakening of corporate finances likely to be reversed quickly Corporate profitability will remain squeezed by the twin nemeses of weak productivity growth and escalating costs, even if the economy does rebound in 1982. What is more, with investment incentives recently enhanced, it is quite likely that capital spending will outpace the growth of internally generated funds in coming years, despite liberalized depreciation schedules. This, in turn, will ensure that corporate borrowing requirements remain robust.

. . . Equals Hefty Corporate Borrowings

As indicated in the table on page 1, although corporate cash flow is projected to rise from $207 billion in 1981 to almost $236 billion in 1982 (stimulated largely by liberalized depreciation schedules), it will cover the smallest percentage of capital expenditures since 1978. As a result, business needs for working capital will rise further, reaching their highest level

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/7/81	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	130.544	– 1.473	+ .540
Loans to Depository Inst.	1.146	– .302	– .103
Float	4.057	+ 1.299	+ .910
Total Reserve Bank Credit	144.902	– .167	+ 4.859
Treasury Deposits with Federal Reserve Banks	3.545	+ .124	+ .243
Currency Outside Banks	122.464	+ .712	+ 4.578
Member Bank Reserves:			
Required	40.105	– .904	– .675
Excess (Deficiency)	.155	– .369	– .197
Total Reserves Held	40.260	– 1.273	– .872
Net Borrowed Reserves	.835	+ .144	– .013
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	90.842	– .620	+ 6.277

Monetary Aggregates †		% Change Since Three Months Ago*	% Change Since Year Ago
M1-B	435.1	+ 2.3‡	+ 4.6‡
M2 (September '81)	1,786.6	+ 8.5	+ 8.6
M3 (September '81)	2,131.8	+ 10.2	+ 11.4
L (June '81)	2,502.7	+ 9.4	+ 11.4

†Seasonally adjusted. *Seasonally adjusted annual rate. ‡Four-week moving average.

New York Money Market

Offering Rates 10/16/81	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	13.20%	13.35%	13.20%
* Federal Agencies	14.06	14.39	15.05
* Project Notes—Taxfree (46% Taxable Equivalent)	15.28	16.20	NA
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	15.05	15.40	15.90

‡Finance Company Paper—Prime

5- 14 days	14.63%
15- 29 days	14.63
30- 59 days	14.50
60- 89 days	13.75
90-179 days	13.75
180-239 days	13.75
240-270 days	13.75

‡* Bankers' Acceptances

Nov.	14.45%
Dec.	14.45
Jan.	14.45
Feb.	14.45
Mar.	14.45
Apr.	14.30

‡Industrial Paper—Prime

30- 89 days	14.50%
90-120 days	14.63

†Federal Funds Effective Rate 15.05%

‡Discount basis. * Subject to availability. † Estimated.

Selected Business Indicators

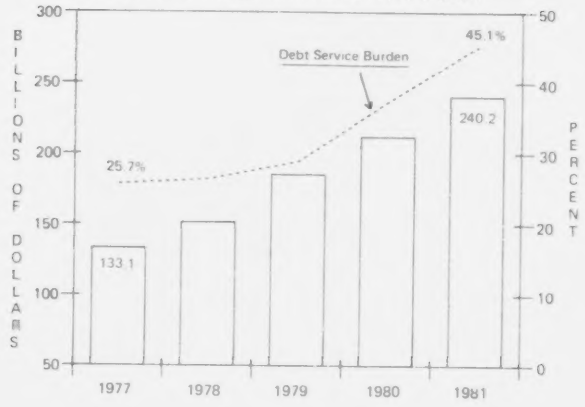
(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'81	$ 2,886	$ 2,853	$ 2,565
Gross National Product (1972 Dollars)*	2nd Q'81	$ 1,510	$ 1,516	$ 1,463
Percent Change, Annual Rate	2nd Q'81	– 1.6%	8.6%	– 9.9%
Change in Consumer Prices (all urban consumers)*	Aug '81	9.6%	14.4%	9.6%
Change in Producer Prices*	Sept '81	2.4%	3.6%	3.6%
Civilian Employment (Thousands of Persons)†	Sept '81	98,270	98,944	97,180
Unemployment as % of Civilian Labor Force†	Sept '81	7.5%	7.2%	7.4%
Personal Income*	Aug '81	$ 2,446	$ 2,419	$ 2,179
Leading Indicators Composite Index (1967=100)†	Aug '81	133.8	134.5	130.7
Industrial Production Index (1967=100) †	Sept '81n	152.1	153.3	144.4
Net Change in Consumer Installment Credit†	Aug '81	$ 2.86	$ 1.95	$ 0.49
U.S. Merchandise Trade Balance †	Aug '81	–$ 4.48	–$ 0.54	$ 0.63
Plant and Equipment Expenditures*	4th Q'81	$332.69(a)	$322.88(a)	$299.58
Private Housing Starts (Thousands of Units)*	Aug '81	937	1,049	1,411
New Construction Expenditures*	Aug '81	$ 231.0	$ 234.8	$ 217.9
Total Business Inventories†	Aug '81n	$ 501.7	$ 498.1	$ 468.9
Total Business Sales†	Aug '81n	$ 350.8	$ 354.5	$ 317.9

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

CHART II

C&I LOANS PLUS COMMERCIAL PAPER OUTSTANDING ($ BILLIONS) VS. CORPORATE DEBT SERVICE BURDEN (PERCENT)



since 1974. When the need for financial asset acquisition is taken into account, total external financing requirements will amount to more than $77 billion, about 10 per cent higher than 1981 and a sizable 25 per cent above 1980. If the bond markets are still unable to reestablish a firmer footing, short-term sources of funds, particularly commercial banks, will have to satisfy a large portion of business financing needs.

On the other hand, it should be anticipated that corporations will jump into the long-term markets to secure needed funds at the first sign of lower bond rates. The implication: Continued pressure on interest rates is likely unless Washington curtails its borrowing—or the economy falls out of bed. ■

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CD's Weekly Reporting Banks			
Nationwide (9/30/81)	130,897	+ 871	+33,524
New York City (9/30/81)	31,853	+ 683	+ 8,721
Commercial Paper (9/30/81)	161,740	– 2,090	+39,559

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/30/81)	188,100	+ 3,140	+21,516
New York City (9/30/81)	54,658	+ 778	+ 5,386

Total Loans Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/30/81)	460,498	+ 9,721	+48,534
New York City (9/30/81)	112,473	+ 5,598	+17,927

Financial Markets

	Friday 10/16/81	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	13.90%	+ .20	+ 2.70
180-Day Bills†	14.65	+ .03	+ 3.35
Longest Bills†	14.90	+ .05	+ 3.89
Recent Issues:			
16s 9/30/83	15.26	+ .26	
15⅞s 9/30/85	15.02	–0–	
14⅞s 8/15/91	14.70	+ .10	
13⅞s 5/15/11	14.27	+ .16	
Municipals:			
Bond Buyer–20 Bond Index* (10/15/81)	12.53%	– .20	+ 3.72
Blue List Total ($ Million)	$ 697	– $117	+ $ 23
30-Day Visible Supply ($ Million)	$1,456	– $442	– $ 889
Total	$2,153	– $549	– $ 866
Corporates:			
Moody's Aa Composite (10/15/81)	15.51%	– .21	+ 3.06
30-Day Visible Supply ($ Million)	$8,449	+ $820	+ $5,113
Stocks:			
Dow-Jones Averages:			
Industrials	851.69	– 21.31	– 104.37
Transportation	363.71	– 7.57	+ 7.39
Utilities	103.08	– 1.08	– 9.85
65 Stocks	335.00	– 7.15	– 22.79
Standard and Poor's 500 Stocks	119.19	– 2.26	– 12.33
N.Y.S.E. Composite Index	69.13	– 1.19	– 6.79
N.Y.S.E. Avg. Daily Vol. for Week (000's)	38,912	– 9,950	– 8,716

* 46% Taxable equivalent 23.20%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/16/81	Week Ago
Overnight	14.75%	14.88%
1 month	15.50	15.31
3 month	16.19	16.25
6 month	16.44	16.38
1 year	16.38	16.25
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	15.45%	15.50%
Long Term (7 to 15 yrs.)	15.50	15.50

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/16/81)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02668	37.48
Canada	.8313	1.2029
Denmark	.1393	7.1785
France	.1784	5.6050
Germany	.4470	2.2370
Italy	.0008402	1190.10
Japan	.004327	231.10
Mexico	.03940	25.38
Netherlands	.4049	2.4700
Switzerland	.5333	1.8750
U.K.	1.8363	.5446